STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

OF

PROFESSIONAL UNDERWRITERS LIABILITY INSURANCE COMPANY
OF
NAPA, CALIFORNIA

AS OF

DECEMBER 31, 2007

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January 14, 2009

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Chair, Financial Condition (E) Committee,
National Association of Insurance Commissioners (NAIC).
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Morris J. Chaves, Superintendent
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New Mexico Department of Insurance
P.O. Drawer 1269
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Honorable D. Kent Michie, Commissioner
State of Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114-6901

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, a full scope examination of the financial condition and business affairs of

PROFESSIONAL UNDERWRITERS LIABILITY INSURANCE COMPANY
of
Napa, California

a casualty insurance company, hereinafter referred to as "Company", was conducted as of December 31, 2007.

SCOPE OF EXAMINATION

Period Covered by Examination

The Utah Insurance Department's (the Department) last financial examination of the Company was conducted as of December 31, 2004. The current examination covers the period from January 1, 2005, through December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, while also incorporating top-down, risk-focused examination techniques associated with the NAIC Risk Surveillance Methodology. This methodology seeks to identify residual risk relating to specific operational areas which are determined in part by the evaluation of design effectiveness and operating effectiveness of operating controls.

Upon the determination of medium to high residual risk, additional examination procedures are performed to determine the monetary effect upon the Company's financial statements. In performing the examination under the "Risk Surveillance" approach, the examiner utilized the work performed by others with primary reliance on work performed by the Company's external auditors, Ernst & Young LLP, and Taylor-Walker & Associates, Inc., consulting actuaries for the Utah Insurance Department.

The examination also consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities as of December 31, 2007. Transactions subsequent to the latter date were reviewed where deemed necessary, and the existence of the Company's assets held by its primary investment custodian was confirmed by the examination as of December 31, 2007.

The format of this report is designed to explain the procedures employed on examination, and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such matters, these issues were thoroughly discussed with responsible officials during the course of the examination.

The general examination procedures followed those contained in the NAIC Financial Condition Examiner's Handbook. Conclusions were guided by Statements of Statutory Accounting Principles contained in the NAIC Accounting Practices and Procedures Manual.

The Company retained an independent certified public accounting (CPA) firm to audit its balance sheets for the years ended 2005, 2006, and 2007, and the related statements of income, equity and cash flow for the years then ended. Certified audit reports, accompanying financial statements, and supplemental information for all of the above three years were made available to the examination, including the workpapers generated during the audits.

Status of Adverse Findings, Material Changes in the Financial Statements, and Other Significant Regulatory Information Disclosed in the Previous Examination

The prior report of examination recommended the Company correctly account for reinsurance in accordance with the applicable reinsurance contracts. Several deficiencies in the Company's reinsurance accounting occurred during the current examination period. During 2005 and 2006, efforts were made by the Company to correct prior reinsurance accounting errors.

HISTORY

General

The Company was incorporated on September 19, 1989, as a stock insurance company, under the provisions of U.C.A. Title 31. The Company's articles of incorporation stated that the purpose for which the corporation is organized is to "insure all risks." The Company's Certificates of Authority permit the transaction of accident and health, property, surety, liability, marine and transport, workers compensation, vehicle liability and professional liability lines of business in Utah, and liability business in California. The articles of incorporation were not amended during the examination period. The Company's bylaws were changed by the deletion of the first sentence of the Article V, Section 1 of the bylaws and replaced with "the number of directors shall be four (4) effective December 6, 2007".

Capitalization

As of December 31, 2007, 500,000 shares of common stock at par value of $10.00 per share with an aggregate value of $5,000,000 are authorized by the articles of incorporation and bylaws. All shares are issued and outstanding. The Company is wholly owned and controlled by The Doctors' Company (TDC), a California corporation.

Dividends to Stockholders

No dividends were paid to the stockholder during the period under examination. An extraordinary cash dividend in the amount of $7,000,000 was approved by the Department on January 13, 2009. (See the SUBSEQUENT EVENTS section of this examination report.)

Management

Article V, Section 1 of the Company's bylaws as amended on December 06, 2007, requires the number of directors on the board of directors (the Board) to be four. Section 2 allows a majority of directors to govern the Company in the event of vacancies on the Board until the next annual election and until the successor(s) are duly elected.

The following four individuals were serving as directors of the Company at December 31, 2007:

Name & Residence	Principal Business Affiliation
Richard Elliot Anderson, M.D. Napa, California	Chairman and Chief Executive The Doctors' Company
David Gerard Preimesberger Napa and Los Angeles, California	Chief Financial Officer The Doctors' Company
Robert David Francis Napa, California	Chief Operating Officer The Doctors' Company
David Lee Suddendorf Larkspur, California	Secretary The Doctors' Company

On December 6, 2007, the Company amended its bylaws to permit the appointment requirement of only four directors versus seven to serve and, as such, replaced the following six directors that were reported at December 2006; David Michael Charles MD, Kenneth Richard Chrisman, Robert Blair Sheppard, David Burnett Troxel MD, Charles Richard Kossman MD and Randall Keach Zeller and appointed David Gerard Preimesberger, David Lee Suddendorf and Robert David Francis.

As of December 31, 2007 the following persons were serving as duly elected or appointed officers of the Company:

Principal Officer	Office
Richard Elliot Anderson, M.D.	President/Chief Executive Officer
David Lee Suddendorf	Secretary
David Gerard Preimesberger	Treasurer; Chief Financial Officer
Robert David Francis	Chief Operating Officer
Steve Freedman	Senior Vice President
Shannon L. Micevych	Vice President
Cheri Priddy	Vice President

The examinee's Board did not establish committees of directors, which function exclusively in the Company's interests. Rather committees of TDC's board of governors perform functions for the subsidiaries of TDC. These committees, primarily investment and audit committees, perform the related functions for all subsidiaries of TDC and as such do not function specifically for the Company.

Conflict of Interest Procedure

The Company has a formal conflict of interest policy. This policy requires the directors, officers, and key staff members of the Company to file an annual disclosure statement which requests a declaration and disclosure of any material interest or affiliation which is in conflict or is likely to conflict with the individual's official duties at the Company.

A review of forms completed during the examination period disclosed no significant interests or affiliations that could be construed as a conflict or potential conflict of interest.

Corporate Records

The minutes of the meetings of the Board conducted during the examination period and the minutes of the meetings of the committees of the TDC board of governors conducted during 2005, 2006 and 2007 were reviewed during the course of the examination. Though improved upon since the prior examination, the minutes provide minimum support and approval of company transactions and events.

The Company's investment custodial agreement with Union Bank of California (UBOC), dated January 2, 2003, was not authorized by a resolution of the Company's Board or a TDC committee thereof, as required by Utah Administrative Code (U.A.C.) Rule R590-178-5(B). Upon examination review, it was also noted this custodial agreement was not compliant with the Utah Administrative Code. It was recommended to the Company to correct and ratify the agreement.

The Company is a separate legal entity; therefore, it's Board or an authorized committee thereof should approve all significant contracts into which the corporation enters. U.C.A. § 31A-5-407(6) states, "The board shall manage the business and affairs of the corporation and may not delegate its power or responsibility, except as authorized by Section 31A-5-412." U.C.A. § 31A-5-412(1) allows the Board to delegate its authority to one or more committees of directors, by resolution, if provided for in the articles or bylaws.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Company did not conduct or participate in any acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance during the examination period.

Surplus Debentures

The Company has two $10,000,000 surplus notes that were issued to nonaffiliated lenders on September 30, 2003 and April 29, 2004.

AFFILIATED COMPANIES

As of December 31, 2007, the Company was a member of a holding company system, pursuant to the provisions of U.C.A. § 31A-16-105, and as previously noted, is owned 100% by The Doctors' Company (TDC). The Company has no ownership or partial ownership of any of the subsidiaries of TDC or any non-related entity. In addition to the Company, TDC exercises 100% ownership of eight other companies, some of which are involved with the operations of the Company pursuant to provisions of certain administrative and service agreements. The TDC holding company system is identified immediately below.

The Doctors Company

- Napa Town Center, LLC (100%)
    - Napa Town Center Management Co., LLC (100%)
- TDC Holdings (UK 100%)
    - TDC Corporate Member (100%)
- The Doctors Management Company (100%)
- The Doctors Life Insurance Company (California domiciled) (100%)
- The Doctors Company Insurance Services (100%) (Subsidiaries include: TDCIS)
- **Professional Underwriters Liability Insurance Company (Utah domiciled) (100%)**
- PULIC Insurance Services, Inc. (100%)
- Underwriter for the Professions Insurance Company (Colorado domiciled) (100%)
    - Northwest Physicians Insurance Company (Oregon domiciled) (100%)
        - Quality Focus, Inc. (100%)
        - NPMIC Insurance Agency, Inc. (100%)
- Yountville Inn, LLC (50%)
- Capital Corner, LLC (50%)
- Altamura/TDC (50%)
    - Gateway, LLC (100%)
    - Tannery Bend, LLC (100%)
- OHIC Insurance Company (Ohio domiciled) (100%)

Agreements with Affiliates

As of December 31, 2007, the Company was a party to a management services agreement, an agency agreement and a consolidated federal income tax agreement with its affiliates as summarized below. It also contracted for reinsurance with its parent, TDC. (See REINSURANCE section.)

I. Management Agreement between The Doctors' Management Company (TDMC) and the Company – Effective September 10, 1993

   Under the terms of this agreement, TDMC, agrees to provide the Company with personnel, office facilities, equipment and supplies, accounting services and financial reporting, and all management and supervisory functions as necessary for the operation of the Company, including underwriting, policy issuance/cancellation and premium collection.

   Provision is made for the Company to reimburse TDMC, on a monthly basis, for the actual cost of all the services and facilities provided. The initial term of the agreement was for a one-year period, with automatic one-year renewals. The agreement may be terminated by either party, upon submission of a written notice to cancel at least ninety days prior to the annual renewal date.

   It was noted during the examination that Section N of the agreement incorrectly referenced California Insurance code vs. Utah Insurance code. This was brought to the Company's attention and a recommendation was made to correct the management agreement.

II. Binding Authority Agreement between PULIC Insurance Services formerly known as Bernard Warschaw Insurance Sales Agency (PULIC IS, Inc.) – Effective November 1, 2005 through October 31, 2008; Effective retroactive to September 20, 1989)

   PULIC IS, Inc. has binding authority to conduct and manage the issuing of Certificates and/or Policies in the name of the Company, subject to limitations.

III. Federal Income Tax Filing (TDC): (Effective 1992)

   In accordance with an agreement between TDC and all its subsidiaries, the Company filed consolidated federal income tax returns commencing with the calendar year 1992. The consolidated taxes reported were allocated to the members of the holding company group using the separate return basis.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2007, the minimum fidelity bond coverage recommended by the NAIC was $500,000 to $600,000 for the Company's exposure index. The Company was a named insured on a fidelity bond, which included TDC and all subsidiaries, with a coverage limit of $5,000,000, and a per claim retention amount of $15,000, which substantially exceeded the recommended coverage.

The Company was also a named insured on policies providing for directors and officers liability, and errors and omissions coverage.

PENSION AND INSURANCE PLANS

The Company had no pension, stock ownership or insurance plans. Employee salaries and benefits were administered through an affiliate.

STATUTORY DEPOSITS

Statutory deposits as required by various state insurance departments as of December 31, 2007, are listed in the following schedule:

State	Type	Par Value	Market Value
Arkansas Insurance Department	Bonds	$ 300,000	$ 318,702
Delaware Insurance Department	Bonds	500,000	711,915
Louisiana Insurance Department	Bonds	125,000	137,529
Massachusetts Insurance Department	Bonds	700,000	713,008
New Mexico Insurance Department	Bonds	125,000	126,006
Nevada Insurance Department	Bonds	300,000	363,306
Oklahoma Insurance Department	Bonds	125,000	137,529
South Carolina Insurance Department	Bonds	150,000	162,351
Utah Insurance Department	Bonds	2,750,000	2,874,086
		$ 5,075,000	$ 5,544,432

The deposits held on behalf of the Department met the requirements of U.C.A. § 31A-4-105, and § 31A-5-211(2), and were held for the benefit of all policyholders. The deposits held by the other states listed above were for the benefit of policyholders, claimants, and/or creditors of the Company in that jurisdiction only.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company specialized in writing high risk, nonstandard medical professional liability coverage. Coverage was written on a claims-made basis, with some prior act and tail coverage. Policies were issued for a maximum limit of $1,000,000 per claim, with a $3,000,000 aggregate limit per policy per year. The Company's net retained loss liability on all policies is 10% per loss and related expenses, with a maximum exposure of $100,000 per loss, and $300,000 annual aggregate, due to facultative placements and a 90% quota share reinsurance agreement with TDC.

Territory and Plan of Operation

The Company was licensed and authorized to transact insurance business in the states of Utah and California as of December 31, 2007. Authorized lines of business include: accident and health, property, surety, liability, marine and transport, workers compensation, vehicle liability and professional liability in Utah, and liability in California. Company records as of December 31, 2007, indicate it wrote business in forty-two other states as a surplus lines carrier.

PULIC Insurance Services, Inc. is the Company's only general agent and the exclusive producer of its nonstandard medical malpractice business. The agency markets to brokers primarily and physicians secondarily. As of December 31, 2007, business was written through approximately 200 different brokerages around the country.

Advertising and Sales Material

Advertisements target retail brokers who are looking for a specialty market for medical malpractice risks that cannot obtain coverage in the standard/preferred markets. Advertisements are run in industry publications. The Company's exclusive general agent also maintains an internet-site at www.pulicinsuranceservices.com.

A review of the advertising and marketing promotional materials utilized revealed no misleading statements or inconsistencies with the policies and products offered by the Company.

Treatment of Policyholders

Due to the nature of the medical malpractice risk insured, claims are generally settled or litigated. Control over policyholder complaints is exercised through the TDC Group complaint log. Three complaints against the Company were recorded for the period 2005 through 2007. Two of the complaints originated in California and one in North Carolina. No complaints were made against the Company to the Department during the examination period. No issues pertaining to the unfair treatment of policyholders were observed during the examination's test of paid and case base claims.

REINSURANCE

Assumed:

As of December 31, 2007, the Company was party to one assumption agreement, which was effective July 1, 2000. Under the terms of this agreement, the ceding company, Texas Medical Insurance Company (TMIC) ceded a 75% quota share of its net liabilities on physician's professional liability policies, which were issued on or after the effective date. TMIC retained 25% of each and every loss, and the Company accepted a 75% quota share not to exceed 75% of $1,000,000 each loss, each policy, each insured, and up to $3,000,000 each insured, in the aggregate each policy. For the years 2005, 2006 and 2007, there was no assumed written premium and at December 31, 2007, there was $122,000 of assumed case reserve.

Ceded:

For the period July 1, 1995 to June 30, 2003, the Company ceded a 90% quota share of the initial $1,000,000 of its medical professional liability risks to its parent, TDC. Effective July 1, 2003, the Company ceded a 35% quota share of the initial $1,000,000 of "standard" risks and 90% of "nonstandard" risks to a nonaffiliated reinsurer. The nonaffiliated treaty was terminated on January 1, 2004. Effective January 1, 2004, the Company again ceded a 90% quota share of the initial $1,000,000 in medical professional liability risks to TDC. In 2006, the Company increased it's retention to $2,000,000 for its California business. In 2007 the Company increased its retention to $2,000,000 for all states.

The Company also purchases excess of loss coverage through an excess cessions agreement. This agreement provides $9,000,000 excess of $2,000,000 coverage.

An additional $10,000,000 of coverage is provided by the $10,000,000 excess of the $11,000,000 CLASH 10 x 11 Treaty and another additional $10,000,000 of coverage is provided in the CLASH 10 x 21 Treaty.

The Company obtained reinsurance coverage with respect to contingency claims through the quota share agreement with TDC and through First and Second Professional Liability Clash and Contingency Excess of Loss contracts with various nonaffiliated reinsurers.

The Company also purchases facultative reinsurance on an "as needed" basis when a risk requires higher limits or special coverages that are not covered by cessions excess of loss treaty.

The Company's ceded reinsurance program as of December 31, 2007, is summarized below:

Coverage	Risks	Agreement	Reinsurer
$ 2M	Written by Company	90% Quota Share	TDC
$ 9M x $ 2M	ECO/XPL	Excess of Loss	Various Nonaffiliated
$10M x $11M	ECO/XPL	Excess of Loss	Various Nonaffiliated
$10M x $21M	ECO/XPL	Excess of Loss	Various Nonaffiliated
$20M x $5M	Common Account Excess *	Excess of Loss	Various Nonaffiliated

* Class action lawsuit or a similar related medical incident related to prescription drugs and or medical device failure or mass tort actions.

During the actuarial review performed by Taylor-Walker & Associates, Inc. (TWA), a significant inconsistency between the Company's operations and the resulting financial statement income was determined to exist. The Company has maintained an extremely profitable book of business in all recent years with the estimated 2007 Loss and allocated loss adjustment expenses (ALAE) ratio just under 40%. The unallocated loss adjustment expenses (ULAE) incurred portion was about 5.4% of direct premiums. Direct non-claim expense ratios were also reasonable, ranging from about 18% to 27% of direct written premiums in calendar years 2005 through 2007. With these observations, TWA expected to see a combined ratio in the range of about 60% to 70%. Furthermore, the Company has maintained Loss and loss adjustment expenses (LAE) reserves at a conservative level, and consistently shows favorable reserve development in the financial statements. Despite the profitable expectations, the Company recorded an underwriting loss of $2,741,574 in the 2007 Annual Statement, compared with net earned premiums of $3,000,000.

Closer review by TWA indicated the underwriting losses are due to the 90% quota-share reinsurance with TDC. The ceding commission under this contract does not provide an equitable sharing of expenses between the companies. The Company's direct expenses (including non-claim expenses and ULAE) are about 28.4% of direct premiums. However, the sum of retained premiums and the ceding commissions are only about 22.7% of direct premiums. This leaves the Company with a loss of 5.7% of direct premiums, prior to consideration of net retained Losses and ALAE. Finally, the Company's expected combined net loss and expense ratio is roughly 199% of net premiums.

Given the apparent guaranteed profit to TDC under this contract, the presence of risk transfer is drawn into question. Upon closer review, the actuarial examiner found the risk transfer was sufficient to allow for reinsurance accounting treatment.

The current reinsurance contract provides significant transfer of surplus from the Company to the parent TDC, and this represents a significant risk to the ongoing profitability of the Company. U.C.A. § 31A-16-106(1)(a)states "Transactions within a holding company system to which an insurer subject to registration is a party are subject to the following standards (i) the terms shall be fair and reasonable."

Furthermore, the 90% quota-share reinsurance agreement with TDC was not submitted to the commissioner in accordance with U.C.A. § 31A-16-106(1)(b)(iii). It states "reinsurance agreements or modifications to reinsurance agreements in which the reinsurance premium or a change in the insurer's liabilities equals or exceeds 5% of the insurer's surplus held for policyholders, as of the next preceding December 31..." may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into the transaction at least 30 days prior to entering into the transaction, or within any shorter period the commissioner may permit, if the commissioner has not disapproved the transaction within the period. The examination determined the ceded premium did exceed 5% of the December 31, 2004 surplus as follows:

Year End	**2003**	**2004**	**2005**	**2006**	**2007**
Surplus	58,798,695	70,891,919	69,963,216	70,020,245	69,473,289
5%	2,939,935	3,544,596	3,498,181	3,501,012	3,473,664
Reins Premium Sch F Part 3	37,247,000	72,352,000	68,166,000	25,097,000	30,874,000

ACCOUNTS AND RECORDS

Employees of an affiliate, The Doctors Management Company (TDMC), perform many functions necessary for the Company's operation. The Company's accounting records are primarily maintained on systems owned and operated by TDMC. Significant applications include:

Application Name	Application Function
Epicore	General Ledger and Accounts Payable
Star	Policy Accounting
Vista	Accounts Receivable/Billing (Standard Business)
Fox Pro	Agency Policy Accounting (Substandard Business)

A significant majority of the Company's business is produced through an affiliate general agent, PULIC Insurance Services. Company policy accounting, underwriting, premium processing and claims functions are performed at the agency on the FoxPro system. The agency electronic data processing system is online with TDC. Policy data tables retained in FoxPro are generated online to TDC on a monthly basis to be retained in a data warehouse.

The Company has an investment accounting services agreement with an external firm to perform the Company's investment portfolio accounting and valuation, including: transaction recording and review; cash processing, valuation of assets; regulatory (statutory) reporting; and ad-hoc client reports.

FINANCIAL STATEMENT

The Company's financial condition as of December 31, 2007, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

Balance Sheet as of December 31, 2007
Underwriting and Investment Exhibit – Statement of Income
For the Year Ended December 31, 2007
Surplus – January 1, 2005 through December 31, 2007

The accompanying comments on the financial statements are an integral part of the statements.

Professional Underwriters Liability Insurance Company
Balance Sheet
As of December 31, 2007

ADMITTED ASSETS

	Amount	Notes
Bonds	$ 87,203,700	
Cash and short-term investments	17,188,584	
Investment income due and accrued	655,355	
Receivable for securities	35,424	
Uncollected premiums and agents' balances in course of collection	4,383,777	
Amounts recoverable from reinsurers	6,704,689	
Current federal and foreign income tax recoverable and interest	0	(5)
Net deferred tax asset	1,038,368	
Receivable from parent, subsidiaries and affiliates	173,727	
Miscellaneous receivables	112,871	
Profit sharing – quota share	0	(3)
Prepaid reinsurance asset	2,354,691	(4)
Total assets	$ 119,851,186	

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$ 2,640,700	(1)(4)
Loss adjustment expenses	3,855,000	(2)(4)
Other expenses, excluding taxes, licenses and fees	50,563	
Current federal and foreign income taxes	1,839,834	(5)
Unearned premiums	16,472,150	(4)
Ceded reinsurance premiums payable	3,244,379	
Funds held by company under reinsurance treaties	365,377	(3)
Amounts withheld or retained by company for account of others	22,918	
Provision for reinsurance	368,628	
Payable to parent and affiliates	948,590	
Collateral on loaned securities	18,393,700	
Other liability	211,935	
Total liabilities	$ 48,413,774	
Common capital stock	5,000,000	
Surplus notes	20,000,000	
Gross paid in and contributed surplus	16,500,000	
Unassigned funds (surplus)	29,937,412	
Surplus as regards policyholders	71,437,412	
Total liabilities, surplus and other funds	$ 119,851,186	

Professional Underwriters Liability Insurance Company
Underwriting and Investment Exhibit
Statement of Income
For the Year Ended December 31, 2007

	Amount	Notes
Underwriting income:		
Premiums earned	$ 2,928,790	(4)
Deductions:		
Losses incurred	(369,850)	(1) (4)
Loss expenses incurred	662,293	(2) (4)
Other underwriting expenses incurred	305,034	(3) (4)
Total underwriting deductions	$ 597,477	
Net underwriting gain or (loss)	$ 2,331,313	
Investment income:		
Net investment income earned	$ 2,510,481	
Net realized capital gains or (losses)	(72,699)	
Net investment gain or (loss)	$ 2,437,782	
Other income:		
Net gain (loss) from agents' or premium balances charged off	$ -0-	
Aggregate write-ins for miscellaneous income -- other income	(726,156)	
Total other income	$ (726,156)	
Net income before dividends to policyholders	$ 4,042,939	
Dividends to policyholders	-0-	
Net income, after dividends to policyholders but before federal and foreign income taxes	$ 4,042,939	
Federal and foreign income taxes incurred	1,824,850	(5)
Net income	$ 2,218,089	

Professional Underwriters Liability Insurance Company
Reconciliation of Capital and Surplus
January 1, 2005 through December 31, 2007

	2005	2006	2007	Notes
Surplus prior year	$ 70,891,919	$ 69,963,215	$ 70,020,245	
Net income (loss)	1,636,706	(228,092)	2,218,089	
Net unrealized capital gains (losses)	10,265	(3,886)	3,886	
Change in net deferred income tax	(100,497)	1,111,634	(378,211)	
Change in nonadmitted assets	89,016	(33,106)	62,469	
Change in provision for reinsurance	(1,221,309)	1,210,678	57,972	
Change in surplus notes		-0-	-0-	
Cumulative effect of changes in accounting principles		(2,000,198)		
Prior year under-ceded reinsurance premium				
Prior year under-ceded losses & Loss adjustment expenses				
Prior year extended "tail" coverage			(547,039)	(4)
Inter-company quota share prior year correction	(1,342,884)			
Change in surplus as regards policyholders for the year	(928,703)	57,030	1,417,167	
Surplus, December 31, current year	$ 69,963,215	$ 70,020,245	$ 71,437,411	

COMMENTS ON FINANCIAL STATEMENT

(1) Losses $2,640,700

The Liability Page line item 1 "Losses" was decreased by $957,891. The booked net loss reserves were outside the examination estimated reasonable range of reserves. Therefore, the reserve amount was adjusted. The examination reserves were estimated by incorporating actual development on the non-standard medical malpractice business through June 30, 2008. The examination reserves also reflect refinements to the reinsurance ceded calculations that were not included in the opining actuary's 2007 reserve study.

(2) Loss adjustment expenses (LAE) $3,855,000

The Liability Page line item 3 "Loss adjustment expenses" was decreased by $1,074,783. The booked net LAE reserves were outside the examination estimated reasonable range of reserves. Therefore, the reserve amount was adjusted.

The examination reserves were estimated by incorporating actual development on the non-standard medical malpractice business through June 30, 2008. The examination reserves also reflect refinements to the reinsurance ceded calculations that were not included in the opining actuary's 2007 reserve study.

(3) Profit sharing – quota share $0
Funds held by company under reinsurance treaty $365,377

The Company improperly reported the "Profit sharing-quota share" of $15,755,693 on the asset page line 2302 in the 2007 annual statement instead of netting it with the contract related amount on the liability page line 13 "Funds held by company under reinsurance treaties." It was increased by $3,217,103 to $18,972,796. This booked asset for quota-sharing relates to a reinsurance contract that was in effect for the latter half of report year 2003. The asset reflects the initial expected Loss and LAE ratios that were included in the calculations at year end 2003. The examination balance revises this asset to be consistent with the Company's booked Losses and LAE and with the examination Losses and LAE.

The examination reclassed the "Profit Share-Quote share" line item to the Liability Page line item 13 "Funds held by company under reinsurance treaties". It was originally reported in the 2007 Annual Statement as $19,338,174 but was reduced to $365,377 in the examination report. The accounting for this offset is permitted under Statement of Statutory Accounting Principles (SSAP) No. 64 Offsetting and Netting of Assets and Liabilities and is permitted under Article #29 of the 2003 Quota-Share Reinsurance Contract.

Based on information provided by the actuary for TWA who performed the actuarial phase of the examination and provided substantive assistance in the reinsurance phases, there were no other reinsurance accounting issues relating to the 2007 Annual Statement.

(4) Unearned premiums $16,472,150
Prepaid insurance asset $2,354,691

The Liability Page line item 9 "Unearned premiums" was increased by $3,078,027 to $16,472,150 and a net decrease in Surplus of $568,036 resulted. The examination determined premiums representing extended coverage endorsements were being earned immediately versus over the period of coverage, which for the Company is five or ten years. According to SSAP No. 65, if extended coverage is for a defined period versus an indefinite period, the premiums shall be earned over the period of coverage. This earnings method is required by SSAP No. 65 since the extended term coverage is for a finite period as described on the individual extension endorsements. This increase is net of the 90% quota-share reinsurance agreement with the Parent TDC. No Incurred but not reported (IBNR) reserves shall be recorded but the unearned premium reserve shall be maintained. Also, the Company also recorded an IBNR reserve which was inappropriate.

The calculation of this adjustment and balance sheet accounts adjusted are as follows:

Description		Total	2007	Pre-2007
U/E Premiums increase of	credit	$ 3,078,027	$ 750,207	$ 2,327,820
Prepaid reinsurance asset of	debit	2,354,691	573,908	1,780,782
Loss reserves (IBNR) decrease of	debit	. 66,300	66,300	0
LAE reserve (ULAE) decrease of	debit	89,000	89,000	0
Net decrease in surplus		$ 568,036	$ 20,999	$ 547,038

(5) Current federal and foreign income taxes $1,839,834

The Company's accrued liability for "Current federal and foreign income taxes" was increased by $2,561,729 to the examination balance of $1,839,834 to recognize the estimated effect of examination adjustments to operations related accounts on taxable income. The Asset Page line item "Current federal income tax recoverable" was reduced by $721,895 to zero.

It should be noted the examination adjustments made to the above financial statement lines; Current federal and foreign income tax recoverable, the Current federal and foreign income taxes liability and the Federal and foreign income taxes incurred line are only examination report estimates. As such the amounts do not reflect actual income tax receivable, payable or incurred expense and should not be utilized in any tax filings.

SURPLUS

(6) Surplus $71,437,411

The Company's surplus was determined to be $1,964,122 greater than reported. The following schedule identifies examination changes:

Account/Item Description	Per Company	Per Examination	Change In Surplus	Notes
Losses	$3,598,000	$2,640,700	$ 957,300	(1) (4)
Loss adjustment expenses	4,929,783	3,855,000	1,074,783	(2) (4)
Profit sharing – quota share	15,755,693	-0-	(15,755,693)	(3)
Funds held by company under reinsurance treaty	19,338,174	365,377	18,972,797	(3)
Unearned premiums	13,394,123	16,472,150	(3,078,027)	(4)
Prepaid reinsurance asset	-0-	2,354,691	2,354,691	(4)
Current federal and foreign income taxes receivable	721,895	-0-	(721,895)	(5)
Current federal and foreign income taxes payable	-0-	1,839,834	(1,839,834)	
Total net adjustments			$ 1,964,122	(6)
Capital & Surplus – Company			69,473,289	
Capital & Surplus – Examination			$ 71,437,411	

U.C.A. § 31A-5-211(2)(f) requires the Company to maintain minimum capital in the amount of $2,000,000. The Company's total adjusted capital and its authorized control level risk based capital requirement, as reported in the 2007 Annual Statement, were $69,473,289 and $1,183,710, respectively. As of December 31, 2007, the Company's total adjusted capital, as adjusted by the examination, was $71,437,411. The authorized control level risk based capital requirement was not adjusted for the examination report since said adjustments would simply enhance the authorized control level risk based capital.

SUMMARY OF RECOMMENDATIONS

Items of significance or special interest contained in this report are summarized below:

1. The Company did not comply with U.A.C. Rule R590-178-5(B), because its investment custodial agreement was not authorized by a resolution of the Board. The Company's custodial agreement was not in compliance with U.A.C. Rule R590-178 as of December 31, 2007. In December, the Company took corrective action to bring the custodial agreement into compliance by executing an amended custodial agreement. The examination obtained evidence the Board approved the custodial agreement and related amendment on December 12, 2008, in accordance with the Rule. (**HISTORY – Corporate Records**)

2. The 90% quota-share reinsurance agreement between the Company and the Parent, TDC, provides a significant transfer of surplus from the Company to TDC, which represents a significant risk to the ongoing profitability of the Company. U.C.A. § 31A-16-106(1)(a)states "Transactions within a holding company system to which an insurer subject to registration is a party are subject to the following standards (i) the terms shall be fair and reasonable;"

   The 90% quota-share reinsurance agreement with TDC was not submitted to the commissioner in accordance with U.C.A. § 31A-16-106(1)(b)(iii). Ceded reinsurance premium reported in Schedule F Part 3 was $72,352,000, which exceeded 5% of the insurer's surplus held for policyholders, as of the next preceding December 31, or $2,939,935.

   It is recommended the Company renegotiate a more equitable ceding commission to comply with U.C.A. § 31A-16-106(1)(a)(i). (**REINSURANCE - Ceded**)

3. The Company improperly reported the "Profit sharing-quota share" of $15,755,693 on the asset page line 2302 instead of netting it with the contract related amount on the liability page line 13 "Funds held by company under reinsurance treaties." The accounting for this offset is permitted under SSAP No. 64.

   It is recommended the Company utilize the offset presentation in the financial reporting of this reinsurance item on a going forward basis in accordance with SSAP No. 64. **(COMMENTS ON FINANCIAL STATEMENT)**

4. Premiums representing extended coverage endorsements were being earned immediately versus over the period of coverage, which for the Company is five or ten years. According to SSAP No. 65, if extended coverage is for a defined period versus an indefinite period, the premiums shall be earned over the period of coverage. The Company also recorded an IBNR reserve which was inappropriate. The result was an increase of $3,078,027 of Unearned Premium Reserve and a net decrease in Surplus $568,036.

On a going forward basis, the Company should adjust its accounting records to reflect the examination adjustment for the extended "tail" and appropriately earn related premiums over the period of coverage and not report a related IBNR loss reserve according to SSAP 65. The Company should also draw down the Asset "Prepaid reinsurance asset" that will be established from the recording of the examination adjustment for the extended "tail" coverage in lieu of any future cash transfers to TDC. **(COMMENTS ON FINANCIAL STATEMENT)**

SUBSEQUENT EVENTS

On May 2, 2008 David Lee Suddendorf tendered his resignation as the Secretary of the Company. On the same day, May 2, 2008, the Board of Directors appointed Bryan Lawton, Ph.D. to the office of Secretary of the Company.

On June 30, 2008, TDC announced that it completed its acquisition of "The SCPIE Companies", a major provider of health care liability insurance. With the addition of more than 8,000 physician policyholders, TDC became the largest national insurer of physician and surgeon medical liability in the United States with more than 43,000 physician members.

A Lehman Bros security with a book value of $719,414 at December 31, 2007, was written down by $629,467 at 09/30/08. The Company sold it on 12/10/08 for $73,800.

On December 12, 2008, the Company's Board declared an extraordinary cash dividend of $7,000,000 to be paid in February 2009. On December 18, 2008, the Company submitted a request to the Department. On January 13, 2009, the Department approved the extraordinary dividend.

The Company, in its 2008 Annual Statement, recognized $639,000 of the 2007 Loss and LAE reserve redundancy. This represents approximately 31% of the $2,032,674 reserve decreased amounts identified in the examination report in Comments on Financial Statement (1) and (2). The reported decrease can be identified in the 2008 Annual Statement on Schedule P-Part 2 Summary in Column 11 One Year Development.

ACKNOWLEDGMENT

The courteous assistance and cooperation extended by officers, employees, and representatives of the Company is acknowledged.

Randall D. Ross, ACAS, MAAA, of Taylor-Walker & Associates, Inc., performed the actuarial phase of the examination and provided substantive assistance in the reinsurance phases. Colette Hogan Sawyer, CFE, CPM, Assistant Chief Examiner, supervised the examination. David Gaines, MBA, Financial Analyst, Aaron Phillips, Financial Examiner, and David Flores, CPA, CFE (Fraud), also participated in the examination.

Respectfully submitted,

Paul E. Ellis

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INS Regulatory Insurance Services, Inc.
Examiner-in-Charge, representing the
Utah Insurance Department